Trade Project

USAID Trade Project

Trade Bulletin

Fiscal Year 2014, Quarter 1

July to September, 2013

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Introduction

Contents

The Trade Bulletin is a quarterly report prepared by the USAID Trade Project. The objective is to inform public and private sector stakeholders about Pakistan's economic and international trade environment. The areas of focus in the report are:

- Macroeconomic Outlook: General economic indicators to ascertain the state of the economy.
- Import and Export Markets: Analysis of trends to ascertain the value and potential of import and export markets of Pakistan.
- Export and Import of Goods: Analysis of the value of goods and services exported from and imported to Pakistan.
- Specific trade trends of high potential trade markets: Pakistan-India, Pakistan-Afghanistan and Pakistan-Central Asia. Analysis of developments, trends, and issues of Pakistan-India trade normalization efforts and trade expansion measures to Central Asia.

The Trade Project collects secondary data from various sources such as the State Bank of Pakistan (SBP), the Pakistan Bureau of Statistics (PBS), and the Federal Board of Revenue / Pakistan Customs (FBR) to carry out its analysis. In some instances, data released by the SBP is provisional and subject to revisions. Background information is gathered through other sources such as local and international media, research papers/journals, books, and other publications.

The term Fiscal Year 2014 (FY14) refers to Pakistan's fiscal year: the period from July 1, 2013-June 30, 2014. This report is for FY14 Quarter 1 (FY14 Q1) which is the period from July 2013 to September 2013. The term Fiscal Year 2013 Quarter 1 (FY13 Q1) refers to the period from July 2012 to September 2012, used as a basis for year over year comparison throughout this report.

Quarterly Review

July to September, 2013

Pakistan's economy in FY14 Q1 remained vulnerable due to poor fiscal policies, continued security challenges, and political uncertainty. A summary of macroeconomic and trade indicators are as follows:

- The International Monetary Fund (IMF) expects Gross Domestic Product (GDP) growth to decrease from 3.60% in 2013 to 2.50% in 2014.[1]
- Inflation, or Consumer Price Index (CPI), decreased from 9.16 % in FY13 Q1 to 8.07% in FY14 Q1.[2]
- The Current Account balance decreased in FY14 Q1 to a deficit of United States Dollar (USD) $1.23 billion from a surplus of USD $439 million in FY13 Q1.[3]
- The Trade Account deficit stands at USD $4.57 billion for FY14 Q1 compared to USD $3.71 billion in FY13 Q1.[4]
- Foreign exchange reserves decreased from USD $14.92 billion in FY13 Q1 to USD $9.81 billion in FY14 Q1.[5]
- The average month-end interbank floating exchange rate reached a record high of Pakistan Rupee (PKR) 105.25 to USD $1.00 in FY14 Q1 compared to PKR 94.59 to USD $1.00 in FY13 Q1.[6]
- In FY14 Q1, the top 10 export destinations collectively accounted for 60.08% of all exports; in FY13 Q1 this figure was 61.97%, highlighting Pakistan's undiversified export portfolio.[7]
- Pakistan's import portfolio is similarly undiversified, with the top 5 import countries accounting for 59.59%, and the top 10 import countries accounting for 70.86%, of the total imports, respectively.[8]
- The top five exports that increased, by value, were Tobacco (117.39%), Raw Cotton (105.54%), Tents (25.37%), Fish (20.06%) and Rice (18.51%).[9]
- Exports, by value, declined most significantly for Wheat (62.21%), Combed Cotton (53.92%), Molasses (51.42%), Oil Seeds (45.56%) and Jewelry (37.55%).[10]
- The top five imports that increased, by value, were Un-milled Wheat (160,608.10%), Soybean Oil (94.67%), Steel Scrap (30.68%), Spices (29.68%) and Power Generating Machinery (18.38%).[11]
- Imports, by value, declined most significantly for Sugar (46.87%), Pulses (41.33%), Raw Cotton (39.92%), Fertilizer (28.14%) and Motor Cars (25.96%).[12]

*The goal of the **Trade Project** is to collaborate with the Government of Pakistan and the private sector to resolve trade challenges and support 'second generation' trade reform through the provision of technical assistance. Specifically, the project aims to encourage improvements in customs and trade facilitation, eliminate anti-export bias in trade policy and enable increased bilateral and regional trade with Pakistan's neighbors through the facilitation of trade and transit agreements and border improvements.*

Overview

Pakistan's economy continued to face challenges across its macroeconomic indicators in FY14 Q1. High inflation, declining foreign exchange reserves and low foreign investments have contributed to a weak Balance of Payments (BoP) position.[13] These factors, together with the country's longstanding structural problems, particularly in the energy sector, have kept growth below the government's projected rate of 4.20%.[14] Remittances, however, have increased from USD $3.59 billion in FY13 Q1 to USD $3.93 billion in this reporting period, and there has been an increase in exports. In addition, the government has indicated its commitment to policy reform, including the privatization of loss-incurring state industries, energy sector reform, expansion of Pakistan's small tax base, and a reduction in government borrowing, per an agreement with the IMF after securing a USD $11 billion loan package from the IMF.[15] The IMF has advised Pakistan to fast-track the privatization of Pakistan International Airlines (PIA) as both parties had agreed to privatize 26% of PIA's shares in June 2013. The deadline for PIA partial privatization has been extended to December 2013. Moreover, the government is also planning to privatize Pakistan Steel Mills (PSM) and state owned banks.[16] In 2013, Pakistan's GDP growth rate was 3.60% against the government's target of 4.20%.[17] The IMF's 2014 GDP growth projection is 2.50%, the lowest among South Asian countries (see Table 1). This outlook for slower economic growth is due to energy constraints and fiscal imbalances.[18] In FY14 Q1, the IMF approved a USD $6.64 billion extended fund facility arrangement with Pakistan in an effort to reverse existing economic imbalances. During his visit to Pakistan in September 2013, the IMF Director of the Middle East and Central Asia Department commended Prime Minister Nawaz Sharif for his efforts to steer the country toward stronger economic performance through the implementation of economic reforms.[19] According to the IMF, this loan program includes measures to help stabilize macroeconomic indicators, support structural reforms, improve trade policies and improve the country's business climate.[20]

Table 1: Forecasted GDP Growth Rate for Developing Asian Countries (FY 2014*)

Pakistan	India	Sri Lanka	Bangladesh	Afghanistan
2.5%	5.1%	6.8%	6.0%	3.5%

Source: International Monetary Fund[21]

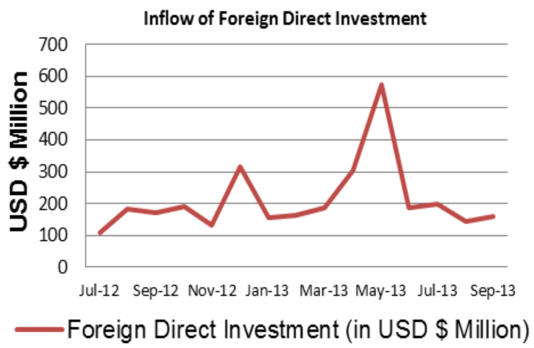
Doing Business Index: The World Bank provides insight on a country's microeconomic and regulatory environment through its annual *Doing Business Index.* Of the economies surveyed for the 2014 *Index*, Pakistan was ranked 110 (out of 189 countries) [a]. Among the eight South Asia Countries, Pakistan (PK) is ranked fourth behind Sri Lanka (SL), Maldives (MD), and Nepal (NL), and ahead of Bangladesh (BN), India (IN), Bhutan (BH) and Afghanistan (AF) (see Table 2).[22]

Table 2: South Asia Country Rankings Doing Business Index 2014[23]

Indicator	Countries							
	SL	MD	NL	PK	BN	IN	BH	AF
Ease of Doing Business Rank	85	95	105	110	130	134	141	164
Filtered Rank	1	2	3	4	5	6	7	8
Starting a Business	2	3	6	7	4	8	5	1
Dealing with Construction Permits	4	1	3	5	2	8	6	7
Getting Electricity	1	6	3	7	8	5	1	4
Registering Property	5	6	1	4	8	3	2	7
Getting Credit	3	6	2	3	5	1	6	8
Protecting Investors	4	5	5	2	1	2	7	8
Paying Taxes	8	4	5	7	2	6	3	1
Trading Across Borders	1	5	7	2	3	4	6	8
Enforcing Contracts	3	2	4	5	7	8	1	6
Resolving Insolvency	2	1	7	3	5	6	8	4

Foreign Direct Investment (FDI)

FDI inflows increased to USD $502.15 million in FY14 Q1 from USD $464.10 million in FY13 Q1, an increase of 8.20% for the reporting period; however this indicator has seen significant variance over the last 12 months. Increased liquidity and momentum in the global economy explain some of the increase in Pakistan's FDI for FY14 Q1, with major investments in oil and gas exploration, chemicals, tobacco and the financial services sectors.[25] The top five FDI contributors were the United States (US), Switzerland, Oman, Hong Kong, and Italy. Considered against other regional and emerging economies, Pakistan's performance in attracting foreign investments is relatively low; however economists note the FDI target of USD $3.4 billion for FY14 is possible if strong efforts to improve the business climate are undertaken.[26]

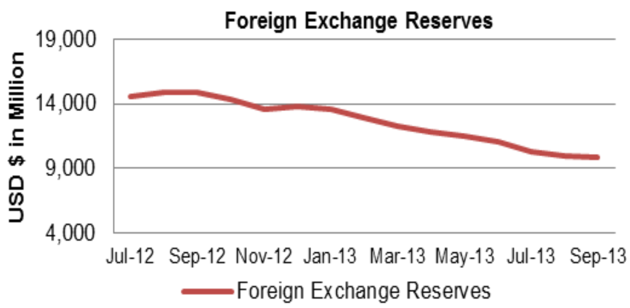


Source SBP/PBS

[a] Pakistan was ranked 107 (out of 185 countries) and 104 (out of 183 countries) for 2013 and 2012, respectively.

Foreign Exchange Reserves

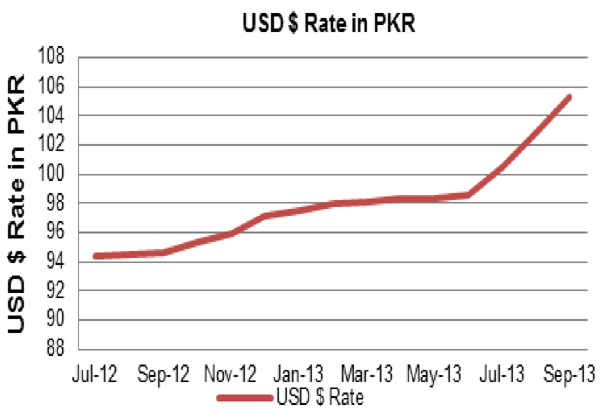
Foreign exchange reserves were recorded at USD $9.81 billion this quarter, compared to USD $14.92 billion in FY13 Q1.[27] In October 2013, former Finance Minister Hafiz Pasha predicted that reserves could drop to USD $3.30 billion in November 2013 (an amount insufficient to finance imports for a month) as a result of a USD $700 million repayment due to the IMF, with no expected inflows.[28] The Government of Pakistan (GoP) has approached Citibank, HSBC and the International China Banking Corporation for advice on issuing Eurobonds worth USD $750 million to boost foreign reserves.[29] In 2006 and 2007, Pakistan raised USD $500 and $750 million, respectively, by issuing 10-year maturity bonds at a 7.75% markup.[30] An additional USD $300 million resulted from the 2006 issuance of 30-year Eurobonds.[31]



Source: SBP / PBS

Value of the Pakistani Rupee (PKR)

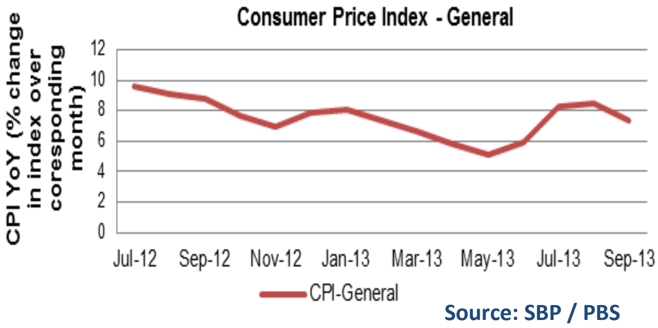
The PKR continued to weaken against the US Dollar. According to the State Bank of Pakistan, the **average month-end interbank floating rate** reached a record high of PKR 105.25 against USD $1.00 in September 2013. The exchange rate for the same period last year was PKR 94.59 to USD $1.00[32]. The trade deficit and ongoing debt payments continue to apply pressure on the PKR.



Source: SBP / PBS

Inflation

Inflation, measured through the CPI, saw a slight decrease from 8.80% in FY13 Q1 to 8.07% in FY14 Q1[33]. In September 2013, Pakistan's Central Bank, using one of its monetary policy instruments, increased the discount rate[b] by 50 basis points to 9.50% in an effort to combat inflationary pressures[34]; however it often takes months to observe an impact of the discount rate on inflation. The GoP has projected an inflation target of 8.00% for FY14 compared to 7.38% in FY13.[35]



Source: SBP / PBS

Foreign Remittances

In FY14 Q1, remittances were recorded at USD $3.93 billion compared to USD $3.59 billion in the same period last year[36]. The top three origins of remittance transfers to Pakistan were Saudi Arabia, the United Arab Emirates (UAE) and the US, accounting for 64.04% of total remittances.[37] Economists believe the remittances for FY14 could reach USD $16 billion.[38]

Table 3: General Economic Indicators: FY13 Q1 vs. FY14 Q1

Indicator	FY13 Q1	FY14 Q1
Consumer Price Index % (12mma)	8.80	8.07
Current Account Balance (USD million)	439	(1,234)
Exports (FOB) USD billion	5.85	6.11
Imports (CIF) USD billion	9.56	10.69
GDP growth rate (%)	3.60	2.50
Average Forex Reserves (USD million)	14.92	9.81
FDI (USD million)	464.10	502.15
Remittances (USD billion)	3.59	3.93

Sources: State Bank of Pakistan / Pakistan Bureau of Statistics

Imports by Country

In the first quarter for Fiscal Year 2014, the import portfolio continued to be undiversified: the top 5 import countries accounted for 59.59% of total imports, amounting to USD $6.37 billion[39], and the top 10 countries accounted for 74.89% of all imports, amounting to USD $8.01 billion[40], up from 70.86%[41] in FY13 Q1. Pakistan's reliance on a small number of countries for the majority of its imports indicates an economy vulnerable to external shocks.

Pakistan's imports in FY14 Q1 increased by 11.83% and were valued at USD $10.69 billion compared to USD $9.56 billion in FY13 Q1.[42] The UAE continued to be Pakistan's top supplier of imports with a total share of 18.13% in FY14 Q1 compared to 16.59% for the same period last year.[43] The value of imports from the UAE increased by 22.20% year over year, from USD $1.59 billion in FY13 Q1 to USD $1.94 billion in FY14 Q1[44], and included crude oil, petroleum products, iron and steel scraps, and electrical goods.[45] In the Joint Ministerial Commission meeting between the UAE and Pakistan, held in November 2013, the countries agreed to establish a Joint Trade Council to further promote bilateral trade through enhanced economic cooperation.[46]

[b] The discount rate is the interest rate charged to commercial banks and other depository institutions on loans they receive from their Central Bank's lending facility--the discount window. An increase in interbank market interest rates alleviates inflationary pressures by causing banks to raise their credit and deposit rates, thereby discouraging investment activity and aggregate demand.

Imports by Country (Continued)

China remained the second largest import supplier to Pakistan with a share of 13.38% of total imports in FY14 Q1. The main items imported include electrical apparatus and machinery parts.[47] In Pakistan, the Federal Minister for Planning and Development announced that the GoP and China are working together to boost the annual trade volume between the two countries, hoping to increase the trade value from USD $12 billion in FY 2013 to USD $20 billion for FY 2014. Such efforts include plans for the construction of economic and industrial cities in Gawadar and other parts of Pakistan, and the establishment of trade corridors and railway links between the two countries.[48]

Imports from **Singapore**, the third largest import supplier to Pakistan for FY14 Q1, increased to USD $1.11 billion from USD $0.82 billion in FY13 Q1.[49] Top commodities imported from Singapore included petroleum products, palm oil and fertilizer.[50]

FY14 Q1 imports from **Saudi Arabia** increased by 22.24% from the same period last year[51] and consisted primarily of oil.[52] Imports from **Kuwait** also increased from USD $834.47 million in FY13 Q1 to USD $877.06 million in FY14 Q1. Kuwait, along with Saudi Arabia, is one of the major sources of petroleum products for Pakistan.[53] Imports from the **US** increased in FY14 Q1 by 49.50% compared to FY13 Q1, from USD $191.98 million to USD $287.00 million. Pakistan's imports from the US consisted of vessels, iron ore, ferrous scrap and machinery.[54]

Table 4: Top 10 Countries Supplying Pakistan's Imports

Country	FY13 Q1 (USD $ Thousands)	FY14 Q1 (USD $ Thousands)	Change	% Change
UAE	1,586,118	1,938,281	20,251	22.20%
China	1,063,690	1,430,409	181,656	34.48%
Singapore	820,785	1,105,884	-5,885	34.73%
Saudi Arabia	833,157	1,018,434	136,969	22.24%
Kuwait	834,469	877,060	-275,224	5.10%
Malaysia	467,073	415,985	-208,859	-10.94%
Japan	348,244	344,104	54,177	-1.19%
India	278,230	333,847	101,557	19.99%
US	191,979	287,003	50,817	49.50%
Germany	269,663	255,640	1,362	-5.20%

Source: State Bank of Pakistan

Imports by Commodity

Petroleum Group: Petroleum, crude oil and its products remain Pakistan's top import commodity with a share of 36.36% in the total import bill.[55] In comparison to FY13 Q1, import of this product increased by 15.65% in FY14 Q1.[56] The value of these imports were recorded at USD $3.89 billion for this quarter compared to USD $3.36 billion in the same period last year.[57] According to Petroleum Ministry officials, the consumption of petroleum products has increased due to the closure of Compressed Natural Gas stations four days a week. In addition, the use of generators for power and electricity in the domestic sector has also increased, resulting in an uptick in the quantity of petroleum consumed.[58] Recent discussions with the International Finance Corporation (IFC), a member of the World Bank group, have introduced the possibility of a USD $500 million Trade Finance Facility [c], a loan to assist Pakistan in financing its oil imports.[59] The financing would cost Pakistan a rate four percent above the London Interbank Offered Rate (LIBOR), and can be potentially expanded to USD $1 billion.

Textile Group: The import of textile sector products declined in FY14 Q1, from USD $501.48 million in FY13 Q1 to USD $492.16 million, a decrease of 1.86% for this reporting period.[60] This included a 39.92% decrease in the import of raw cotton[61], a trend which may continue throughout FY14 as a result of surplus stock of raw cotton due to heavy imports made in FY13.[62] The import of synthetic silk yarn was the only textile item to show an increase in this reporting period, up 14.41% in FY14 Q1 compared to FY13 Q1.[63]

Transport Group: Overall imports of the transport sector increased from USD $429.18 million in FY13 Q1 to USD $482.81 million in FY14 Q1, a 12.50% increase.[64] The import of road motor vehicles increased 18.47% in FY14 Q1 compared to the same period last year.[65] This included a 26.21% increase in the import of Completely Knock Down (CKD) buses, cars and motorcycles.[66] The local auto industry is still recovering from competition it was exposed to in the form of the import of three-year-old used cars and five-year-old vans, Sport Utility Vehicles (SUVs) and 4x4 vehicles under the current laws.[67] Sources confirm that the government will consult the local industry before formulating a new automotive industry policy.[68] There was a 2.28% decrease in the import of Completely Built Units (CBU).[69] Additionally, imports of aircrafts, ships and boats increased by 4.95% from USD $199.43 million to USD $209.31 million.[70]

[c] The IFC's Trade Finance Facility, part of its Global Trade Finance Program "offers confirming banks partial or full guarantees covering payment risk on banks in the emerging markets for trade related transactions. These guarantees are transaction-specific and may be evidenced by a variety of underlying instruments such as: letters of credit, trade-related promissory notes, accepted drafts, bills of exchange, guarantees, bid and performance bonds and advance payment guarantees" (See: *IFC Global Trade Finance Program*, available at: http://www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Industries/Financial+Markets/Trade+and+Supply+Chain/GTFP/).

Food Group: The food import bill showed a small decrease of 0.52% from FY13 Q1, and was recorded at USD $1.11 billion in FY14 Q1. Un-milled wheat showed the greatest increase in import value year over year, amounting to USD $36.28 million in FY14 Q1 compared to USD $23,000 in FY13 Q1. This change can be attributed to the high import of wheat from Russia and Eastern Europe at a cheaper price.[71] The import of pulses decreased by 41.33% from USD $131.51 million to USD $77.16 million. The main reason for the decline in import of pulses is the local bumper crop, which was sufficient to meet Pakistan's demand.[72] The value of palm oil imports decreased by 19.17%, from USD $580.60 million in FY13 Q1 to USD $469.32 million in FY14 Q1.[73] In terms of quantity, however, the import of palm oil had increased from 556,043 metric tons in FY13 Q1 to 564,115 metric tons in FY14 Q1. Malaysia reduced the tax on their palm oil exports which resulted in a corresponding reduction in import value for Pakistan.[74] Soya bean oil imports increased from USD $14.54 million to USD $28.30 million, while sugar imports decreased from USD $1.82 million to USD $0.97 million.[75] The rising sugarcane crop and the installation of new sugar mills are cited as one of the major reasons for the decrease in sugar imports.[76]

Table 5: Pakistan's Imports by Commodity

Commodity	(USD $ Thousands)		% Total Imports		% Change
	FY13Q1	FY14Q1	FY3Q1	FY14Q1	
Food Group	1,116,055	1,110,301	11.67%	10.39%	-0.52%
Machinery Group	986,327	1,290,641	10.32%	12.07%	30.85%
Transport Group	429,177	482,805	4.49%	4.52%	12.50%
Petroleum Group	3,361,058	3,887,075	35.16%	36.36%	15.65%
Textile Group	501,476	492,157	5.25%	4.60%	-1.86%
Agri. & Other Chemical	1,648,167	1,669,347	17.24%	15.62%	1.29%
Metal Group	600,283	711,702	6.28%	6.66%	18.56%
Miscellaneous Group	199,362	227,765	2.09%	2.13%	14.25%
All Others	717,513	818,729	7.51%	7.66%	14.11%

Exports by Country

Pakistan's exports for FY14 Q1 increased to USD $6.11 billion from USD $5.85 billion in the same period last year.[77] The 4.54% increase in exports is a positive sign for Pakistan given persistent energy shortages, security challenges, and currency devaluation which have contributed to the country's external sector vulnerabilities[d]. The GoP has committed to improve the country's economic position by adhering to the IMF program[78] and implementing stricter measures to grow the tax base.[79] The country's top five export recipient countries account for 45.77% of total exports, and the top 10 export countries represent 60.08% of Pakistan's total exports.[80]

[d] External sector includes, but is not limited to, FDI, Trade Deficit, Loans, Debt Servicing, Current Account, and Capital Account.

The **United States** maintained its position as the leading recipient of exports from Pakistan, accounting for USD $1.03 billion worth of goods exported in FY14 Q1.[81] The trade surplus with the US in this quarter was recorded to be USD $738.36 million.[82] This quarter's exports to **China** and the **UAE** were recorded at USD $701.43 million and USD $416.04 million, respectively.[83] While exports to China in FY14 Q1 saw an increase of 10.28%, exports to the UAE declined 21.65% compared to the same period last year.[84] Experts note that although exports to China are increasing, the balance of trade is still vastly in favor of China.[85] The July 2013 trip by Prime Minister Nawaz Sharif to China brought hope that Pakistan will continue to increase exports to China.[86]

Table 6: Top 10 Export Destinations for Pakistan

#	Country	FY13 Q1 (USD $ Thousands)	% of Exports	FY14 Q1 (USD $ Thousands)	% of Exports	% Change
1	US	1,022,712	17.49%	1,025,360	16.77%	0.26%
2	China	636,036	10.88%	701,434	11.47%	10.28%
3	UAE	530,976	9.08%	416,042	6.81%	-21.65%
4	UK	341,145	5.83%	373,452	6.11%	9.47%
5	Germany	238,843	4.08%	281,860	4.61%	18.01%
6	Afghanistan	300,966	5.15%	249,605	4.08%	-17.07%
7	Bangladesh	151,385	2.59%	185,947	3.04%	22.83%
8	Italy	133,690	2.29%	159,444	2.61%	19.26%
9	Spain	126,542	2.16%	151,336	2.48%	19.59%
10	France	119,993	2.05%	128,118	2.10%	6.77%

Exports by Commodity

Textile: Despite energy shortages, the country's textile sector has performed well during the first quarter of FY 2014. Pakistan's textile sector continues to be its largest export sector, accounting for 56.65% of total goods exports in FY14 Q1.[87] The value of textile exports increased 7.52%, from USD $3.22 billion in FY13 Q1 to USD $3.46 billion in FY14 Q1.[88] Pakistan's economy relies heavily on the textile sector as it provides employment to more than 39% of the workforce[89]; however, challenges such as energy constraints, non-tariff barriers and delays in implementation of the European Union (EU) Generalized System Preferences (GSP) Plus agreement have prevented the textile sector from realizing its full export potential.

The export of raw cotton increased by 105.54% from USD $24.62 million in FY13 Q1 to USD $50.61 million in FY14 Q1.[90] Moreover, the export of cotton yarn and cotton cloth also saw an increase of 9.97% and 12.79%, respectively, over the same period last year.[91] The depreciation of the PKR is one of the factors influencing this increase in exports of raw cotton.[92]

Textile exports to the EU are expected to increase by between USD $580-$700 million after Pakistan's GSP Plus status goes into effect January 1, 2014.[93] Textile industry experts confirm that Pakistan's duty-free access will benefit the textile sector's exports to the EU market, particularly the higher value-added segments of the textile chain such as fabrics, readymade garments and made-ups.[94]

Food: In FY14 Q1, Pakistan's total food export decreased by 2.22% as compared to the same period last year.[95] The food bill for this quarter amounted to USD $866.93 million as compared to USD $886.60 million in FY13 Q1.[96] Rice remained the country's top food export commodity, increasing by 18.51% from FY13 Q1 to FY14 Q1 and valued at USD $402.57 million.[97] This rise in rice export is due to increased production and favorable market conditions.[98] The UAE and UK are the top recipient countries for the export of rice.[99] The export of tobacco increased from USD $5.15 million in FY13 Q1 to USD $11.19 million in FY14 Q1.[100] Tobacco exports have been on the rise in Pakistan for the last two years due to a price competitive advantage.[101] Other food commodities that saw an increase in FY14 Q1 were fish, vegetables, sugar and spices.[102]

Other Manufacturers: This category includes cement, carpets, leather products, sports goods, chemical and pharmaceutical products and engineering goods. Jewelry exports decreased by 37.55% in FY14 Q1 compared to FY13 Q1.[103] Cement export decreased by 3.36% from USD $147.26 million in FY13 Q1 to USD $142.31 million in FY14 Q1.[104] Exports of footwear, leather goods, sports goods, cutlery, medical and surgical goods increased, while exports of furniture, chemical products, engineering products, carpets, rugs and mats declined in FY14 Q1 compared to FY13 Q1.[105] In October 2013, representatives of a Chinese delegation touring Pakistan expressed interest in assisting the Pakistani carpet industry to better access Chinese markets.[106]

Regional Trade

Overview: Trade volume with the South Asia region[e] accounts for 5.75% of Pakistani trade. Regional trade volume in FY14 Q1 increased by 6.53%, from USD $907.05 million to USD $966.25 million.[107] This quarter's exports to the South Asia region were 9.71% of Pakistan's total exports[108], and were valued at USD $593.74 million, a year over year increase of 0.29%. Imports from South Asia increased by 18.24%, from USD $315.06 million in FY13 Q1 to USD $372.52 million this quarter[109], accounting for 3.48% of Pakistan's total imports from the world.[110]

Pakistan has a positive trade balance with all South Asian countries except for India, with which Pakistan has a trade deficit of USD $244.78 million. The overall trade surplus in FY14 Q1 for this region was USD $221.22 million, a decrease of 20.12% from USD $276.93 million in the same period last year.[111]

[e] South Asia refers to Afghanistan, India, Sri Lanka and Bangladesh

Afghanistan

The trade volume between Pakistan and Afghanistan decreased by 15.27% in FY14 Q1, from USD $307.88 million in FY13 Q1 to USD $260.86 this quarter.[112] Pakistan's trade surplus with Afghanistan decreased by 18.94%, from USD $294.35 million in FY13 Q1 to USD $238.35 million this reporting period.[113] Exports to Afghanistan decreased by 17.07% and imports increased by 62.63% in the first quarter of FY14 compared to the same quarter last year.[114] The top items imported from Afghanistan during this quarter include coal and non-carded cotton, and the top export items were cement, vegetable fats/oils, and milk and cream.[115]

One factor that has contributed to the decline in exports to Afghanistan (and overall trade value) is 'Gurmik', an Afghan Customs Clearance Document, which is not supplied by Afghan customs to importers, as they now receive a computer generated invoice. Pakistan customs counterparts still operate manually and require the Gurmik to process refunds to Afghan exporters. Moreover, exporters are fined for not having this document.[116] Pakistan Prime Minister Nawaz Sharif and Afghanistan's President Hamid Karzai met in Islamabad in August 2013 to sign agreements for promotion of trade volumes and strengthening of economic relations.[117] Although both countries have signed the Afghanistan-Pakistan Transit Trade Agreement (APTTA) in 2010 to *"facilitate the movement of goods between and through their respective territories and to provide all possible facilities"*[118] to ease trade barriers, progress is still slow, largely because of political tensions.[119]

Pakistan–Afghanistan Trade Summary (USD $ Thousands)			
Description	FY13 Q1	FY 14 Q1	% Change
Export Value	300,966	249,605	-17.07%
Import Value	6,920	11,255	62.63%
Two-Way Trade Value	307,887	260,860	-15.27%
Trade Balance	**294,046**	**238,350**	**-18.94%**

India

In South Asia, India is Pakistan's largest trading partner. The trade volume witnessed an increase of 20.79%, from USD $ 350.12 million in FY13 Q1 to USD $422.91 million in FY14 Q1.[120] As a result of trade normalization negotiations between the two countries, the number of permissible items for import from India increased from 2,000 to 6,800 items. This also encouraged India to reduce tariffs on 234 export items from Pakistan under the South Asia Free Trade Agreement (SAFTA).[121] Pakistan's exports to India increased by 23.89% from USD $71.89 million in FY13 Q1 to USD $89.06 million in FY14 Q1. The main exports included dates, sugar, oil (oil from petrol and bituminous Mineral) and cement.[122] Pakistan's imports from India in FY14 Q1 increased by 19.99% year over year, and were valued at USD $333.84 million. Imported commodities included cyclic hydrocarbons, vegetables, cotton and polymers among others.[123] Pakistan's trade deficit with India increased by 18.63% to USD $244.78 million in FY14 Q1 compared with USD $ 206.34 million in the first quarter of FY13.[124]

Pakistan–India Trade Summary (USD $ Thousands)			
Description	**FY13 Q1**	**FY14 Q1**	**% Change**
Export Value	71,894	89,068	23.89%
Import Value	278,230	333,847	19.99%
Two-Way Trade Value	350,124	422,915	20.79%
Trade Balance	**-206,336**	**-244,780**	**18.63%**

Bangladesh

Pakistan's trade surplus with Bangladesh increased significantly in this reporting period, from USD $138.58 million in FY13 Q1 to USD $173.13 million in the first quarter of FY14.[125] The trade volume between the two countries increased by 21.05% to USD $198.75 million. Exports witnessed a growth of 22.83%, valued at USD $185.94 million for FY14 Q1, and included cotton yarn and cotton fabrics.[126] The year over year value of imports remained unchanged, totaling USD $12.80 million in the first quarters of FY13 and FY14. The main items of import included jute and textile-based fibers.[127]

Pakistan–Bangladesh Trade Summary (USD $ Thousands)			
Description	**FY13 Q1**	**FY14 Q1**	**% Change**
Export Value	151,385	185,947	22.83%
Import Value	12,809	12,809	-0.01%
Two-Way Trade Value	164,195	198,756	21.05%
Trade Balance	**138,576**	**173,139**	**24.94%**

Sri Lanka

Pakistan saw an increase of 7.64% in its trade surplus with Sri Lanka, from USD $50.64 million in FY13 Q1 to USD $54.51 million in FY14 Q1.[128] Exports to Sri Lanka in FY14 Q1 increased by 2.03% to USD $69.12 million, up from USD $67.75 million in FY13 Q1. Imports decreased by 14.57% to USD $14.60 million in FY14 Q1, compared to USD $ 17.09 million in the same period last year.[129] The main export commodities included cotton fabrics, cement, wheat and sugar.[130] Imports from Sri Lanka consisted of rubber, wood, fruits and vegetable products.[131]

Pakistan-Sri Lanka Trade Summary (USD $ Thousands)			
Description	**FY13 Q1**	**FY14 Q1**	**% Change**
Export Value	67,745	69,122	2.03%
Import Value	17,099	14,607	-14.57%
Two-Way Trade Value	84,844	83,729	-1.31%
Trade Balance	**50,646**	**54,515**	**7.64%**

Overview of Trade with the Central Asian Republics (CARs)[f]:

(Please note that as the percentage changes do not demonstrate trends or a meaningful comparison, the authors have chosen to only state the monetary value of imports and exports.)

In FY14 Q1, Pakistan's trade volume with Central Asia amounted to USD $8.31 million. Pakistan's trade balance with these states for FY14 Q1 was USD $5.12 million, with exports of USD $6.72 million and imports of USD $1.59 million.[132] Despite Pakistan's trade surplus, the volume of trade with CARs is relatively low.

Pakistan's trade with landlocked Central Asian states is transited through Afghanistan, and subject to certain impediments. In September 2011, Afghanistan agreed to eliminate the financial security fee that is assessed for transit goods, which is expected to have a positive impact on exports to CARs, particularly perishable items like dry fruits, fruits and vegetables.[133]

The Pakistani Federal Minister for Planning and Development, during the Central Asia Regional Economic Cooperation (CAREC) meeting in Kazakhstan in October 2013, emphasized the importance of investing in regional connectivity projects and eliminating trade barriers for better trade results.[134]

Kazakhstan

Kazakhstan is Pakistan's second largest trade partner among CAR states, producing a surplus of USD $0.53 million for FY14 Q1.[135] Pakistan's exports to Kazakhstan in this quarter were valued at USD $0.55 million compared to USD $0.65 million in FY13 Q1, and consisted mainly of tarpaulin and tents.[136] Imports from Kazakhstan declined to USD $13,000 in FY14 Q1 from USD $38,000 in the same quarter last year, and consisted solely of chemicals.[137]

Kyrgyzstan

Kyrgyzstan had the lowest trade volume with Pakistan among Central Asia countries. The total trade volume of Pakistan with Kyrgyzstan was valued at USD $54,000 and consisted solely of exports.[138] No exports or imports were recorded in FY13 Q1.[139] Pakistan's main exports to Kyrgyzstan include medical instruments and leather accessories.[140]

Tajikistan

Pakistan does not figure prominently among Tajikistan's trading partners, due mainly to the lack of transportation facilities, absence of a developed banking system in Tajikistan, and security issues. The trade volume between Pakistan and Tajikistan decreased from USD $8.49 million in FY13 Q1 to USD $4.48 million in FY14 Q1; however, Tajikistan is still the largest CAR trade partner for Pakistan.[141] Pakistan's exports increased slightly, from USD $3.68 million in FY13 Q1 to USD $3.71 million in FY14 Q1.[142] The imports declined from USD $4.81 million to USD $0.77 million.[143]

[f] CAR refers to Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan

This increase in exports and a decline in imports resulted in a trade balance favorable to Pakistan of USD $2.93 million in Q1 FY14.[144] The main exports were sugar and sugar confectionery.[145] Imports included non-carded cotton.[146] In his October 2013 visit to the Lahore Chamber of Commerce and Industry (LCCI), Tajikistan's Ambassador emphasized the importance of business to business (B2B) meetings between the two countries, and expressed confidence that the forthcoming resolution regarding electricity support from his country to Pakistan would strengthen trade ties.[147]

Turkmenistan

Trade with Turkmenistan increased from USD $0.98 million in FY13 Q1 to USD $1.68 million in FY14 Q1.[148] This increase in the total volume is mainly due to an increase in exports, from USD $0.17 million in FY13 Q1 to USD $0.87 million in FY14 Q1.[149] Imports decreased slightly from USD $0.82 million in FY13 Q1 to USD $0.81 million in this reporting period.[150] Increased exports in FY14 Q1 resulted in a trade surplus with Turkmenistan of USD $66,000. In FY13 Q1 the trade balance was in favor of Turkmenistan by USD $ 0.65 million. Exports consisted of rice and textile based fibers,[151] and imports from Turkmenistan consisted mainly of woven cotton and non-carded cotton.[152] The Turkmenistan Afghanistan Pakistan India (TAPI) gas pipeline project, still in a preliminary stage, is expected to strengthen trade ties if implemented. Sources confirm that the TAPI pipeline will be discussed during the US–Pakistan Energy Working group meeting scheduled for November 2013, as part of US efforts to facilitate implementation of the project.[153]

Uzbekistan

Total trade volume between Pakistan and Uzbekistan in FY14 Q1 was valued at USD $1.54 million, and consisted solely of Pakistan's exports. There have been no imports recorded for this quarter; in FY13 Q1 they were valued at USD $0.12 million.[154] Exports increased to USD $1.54 million in FY14 Q1, up from USD $0.62 million in the same period last year. The trade balance surplus for Pakistan increased from USD $0.50 million to USD $1.54 million, due in part to the absence of imports from Uzbekistan in FY14 Q1.[155] Exports consisted primarily of medicine and medical instruments.[156] A "Cotton Exhibition" is reportedly being planned in Thailand to provide a forum for increased business interaction between the two countries.[157]

Central Asian Republics Trade Summary

	Exports (USD $ Thousands)		Imports (USD $ Thousands)		Trade Balance (USD $ Thousands)		Trade Volume (USD $ Thousands)	
Country	FY13 Q1	FY14 Q1	FY13 Q1	FY14 Q1	FY13 Q1	FY14 Q1	FY13 Q1	FY14 Q1
Kazakhstan	654	546	38	13	616	533	692	559
Kyrgyzstan	0	54	0	0	0	54	0	54
Tajikistan	3,679	3,707	4,807	774	-1,129	2,932	8,486	4,481
Turkmenistan	168	871	816	805	-648	66	984	1,676
Uzbekistan	617	1,543	117	0	500	1,543	734	1,543
Regional Totals	**5,117**	**6,721**	**5,778**	**1,592**	**-660**	**5,129**	**10,895**	**8,312**

Source: State Bank of Pakistan

Trade Projects in Pakistan

Name	Description	Status
European Union (EU) Trade Related Technical Assistance II (TRTA II)	The TRTA II program is funded by the European Union (EU). Its objective is to assist Pakistan in developing the required capacity to deal with challenges in trade, to support the county's integration into the global economy. The UN Industrial Development Organization (UNIDO) is responsible for the implementation of TRTA II. There are three components: (1) Trade Policy Capacity Building is managed by the International Trade Centre; (2) Export Development Through the Improvement of the Quality of Infrastructure is under UNIDO; and (3) Strengthening of the Intellectual Property Rights System is managed by the World Intellectual Property Organization. TRTA II became operational on January 1, 2010.	Active
World Bank (WB) Trade & Transport Facilitation Project-II (TTFP-2)	The TTFP-2 is a WB program with total funding of USD $25 million. TTFP-2's objective is to improve Pakistan's international competitiveness through simplified export and import documentation procedures, modernization of related legislation and creation of a national capacity to solve potential problems between the transport users and providers. The project has two components: (1) National Trade Corridor, and (2) Trade and Transport Facilitation. The project will continue operating until the end of 2013.	Active
Asian Development Bank National Highway Development Sector Investment Program	The National Highway Development Sector Investment Program (NHDS) is funded by the Asian Development Bank (ADB) up to USD $230 million. The objective of the NHDS Program is to reduce transportation costs for goods and passengers and improve the regional connectivity to the country's main economic centers. The project seeks to improve the road sector's efficiency in Pakistan's main transport corridor and build institutional capacity within the National Highway Authority. The project is scheduled to operate until 2013.	Active
Multi-Donor Trust Fund (MDTF) Economic Revitalization of Khyber Pakhtunkhwa and the Federally Administered Tribal Areas	The Economic Revitalization Program is funded by the MDTF for up to USD $20 million. The project's objective is to support the Government of Pakistan in its effort to stimulate economic growth in Khyber Pakhtunkhwa (KPK) and the Federally Administered Tribal Areas (FATA) through the creation of employment opportunities via institutional capacity building, investment mobilization, and by providing support to Small and Medium Enterprises (SMEs). The project has three components: (1) SME Development, (2) Investment Mobilization, and (3) Capacity Building to Foster Investment and Implement Reforms. The implementing agencies for this project include the Government of KPK and the FATA Secretariat.	Active
World Bank Pakistan Poverty Alleviation Fund (PPAF III)	The PPAF Project is designed to improve the economy by providing better income opportunities to low-income groups in urban and rural communities. The PPAF Project has a presence in 129 districts. It is funded by the World Bank and was initiated in August 2009 with an end date of 2015.	Active
UK Department for International Development (DFID) Punjab Economic Opportunities Program (PEOP)	The DFID PEOP was formulated in cooperation with the Government of Pakistan, with funds up to GBP £55 million. The PEOP focuses on poverty alleviation in Punjab's four districts of Bahawalpur, Bahawalnagar, Lodhran and Muzaffargarh by enhancing livestock quality and quantity, thereby supporting local economies. Key features of the program include: (1) Skill development, (2) Livestock and dairy development, (3) the Center for Inclusive Growth, and (4) Technical assistance. The program is scheduled to continue operating until the end of 2013.	Active
US Agency for International Development (USAID) Karachi Harbor Crossing Project	The Karachi Harbor Crossing Project (KHCP) is funded by USAID and provides technical assistance to: (1) rationalize Karachi Port Trust's current business strategy and future investment plans; and (2) build its financial planning and forecasting capacity. It will also establish the Karachi Harbor Crossing Project on a non-sovereign basis. Additionally, a USD $225 million loan from the Asian Development Bank was approved in 2013.	Active
DFID South Asia Regional Trade and Integration Program (SARTIP)	The project's objective is to allow for greater efficiency and integration in regional trade in power and goods in South Asia. The total budget for this project is GBP £21.21 million, funded by DFID. The areas that will be improved under this project include trade facilitation, trade policy and administrative management, and implementing Regional Trade Agreements (RTAs).	Active
South Asia Federation of Exchanges Regional Financial Integration Project	The concept for this project has been developed under the specific needs identified by the South Asian Association for Regional Cooperation (SAARC) Secretariat of facilitating regional financial integration. The objectives of the project are to develop harmonized capital market regulations, and standardize self-regulatory frameworks for the management and operations of regional markets. Greater integration of the South Asian capital and financial markets is the goal of the project.	Active

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